

Testimony of Tom Stanberry
Government Oversight Committee
Iowa State Legislature
February 12, 2009

Good morning. I am Tom Stanberry, Chairman and CEO of West Bank, an Iowa state bank headquartered in West Des Moines, Iowa. I also have the privilege of being the current chair of the Iowa Bankers Association. I appreciate the opportunity to visit with the members of the Government Oversight Committee regarding the banking industry's role in our country's economic recovery.

I believe there are many elements that will be involved in the recovery from the economic recession the United States is currently in. Government assistance will be necessary to start the recovery but full financial recovery will only occur through the prudent efforts of the private sector. Three fundamental components of the recovery include boosting consumer confidence among the American public, creating employment opportunities to replace the 3.6 MM jobs lost since the beginning of this recession in December of 2007 and restoring the strength of the financial system. I am here today to discuss only the commercial banking portion of the American financial system.

Commercial banks play a key role in the nation's financial system. We provide a place for consumers and businesses to keep federally insured deposits in amounts up to \$250,000. In many circumstances deposits in banks can be insured in amounts well in excess of \$250,000. We provide a variety of types of loans to consumers and businesses. Finally, and maybe most importantly to our nation's financial health, we provide payment systems that augment the free flow of commerce and promote both consumer and business transactions.

An early federal program designed to strengthen our financial system is the Troubled Asset Relief Program (TARP) created by Congress in 2008 and administered by the U.S. Treasury. TARP was designed to be used in combination with programs created by the Federal Deposit Insurance Corporation for insuring a healthy national banking system. It is important that the members of the Iowa legislature and the general public understand that traditional, regulated, FDIC-insured banks are the foundation for a solid recovery - through continuing bank lending, depository products and payment systems, and applying bank-like regulation to other sectors of the financial-services industry.

One TARP component is the voluntary Capital Purchase Program (CPP), intended to provide capital to healthy banks. The remaining money in TARP has been used to inject money into troubled non-bank institutions such as AIG, General Motors and Chrysler, which have been deemed important institutions to the economy that are in danger of failing. Of the \$350 billion initial TARP allocation, \$250 billion was set aside for banks participating in the CPP. Under normal circumstances banks raise capital in the public or private debt and equity markets. These are not normal circumstances. Banks in the last 12 months have raised only one-third of the capital typically raised during a recession.

Despite the difficult economic environment, only 7 percent of small businesses reported problems in obtaining the financing they desired, according to a December survey by the National Federation of Independent Businesses. The report concluded: "No credit crunch has appeared to date beyond the normal cyclical tightening of credit. Borrowers are also being more careful. This combination of increased bank lending at the same time that loan demand is shrinking underscores the increased prominence of banks in meeting the credit needs of borrowers. The availability of capital through the Capital Purchase Program provides added flexibility to help assure these borrowing needs are met." Through December 31, 2008 loans increased 1% year over year

There is a serious misconception that the capital invested by Treasury is sitting idle in banks. The CPP money is a capital injection in healthy banks - in exchange the government receives an ownership stake in the form of preferred stock and warrants to purchase common stock. Bank capital is not money that can be used directly for lending, but rather is to support lending many times the level of new capital. In other words, this capital allows banks to raise more funds – largely deposits – in order to increase lending. Today only 359 of the nation's 8,400 banks and 51 Iowa banks have been approved for capital from CPP. Many banks that received approval have decided to not take CPP monies due to the cost. Other banks did not apply because they already had excess capital. Capital from CPP has a significant cost to the banks in dividends paid to Treasury and in the warrants given the government. As the following example using West Bank depicts, lending to qualified consumers and businesses is the best method to offset this cost.

West Bank is a \$1.6 Billion state bank with eleven offices in the Des Moines and Iowa City/Coralville metro areas. We employ approximately 160 people. At December 31, 2007 our loans outstanding were \$985,422,748 versus loans outstanding on December 31, 2008 of \$1,101,753,331. In 2008 we loaned approximately \$5 for every \$1 increase in our loans outstanding. Since the end of 2008 our loans have increased approximately \$25,000,000.

On December 31, 2008 West Bancorporation, Inc. (NASDAQ:WTBA) received \$36,000,000 of CPP funds from the federal government in exchange for \$36,000,000 of senior preferred shares and warrants to purchase 473,269 shares of common stock. \$34,000,000 of the funds was used to increase capital in West Bank. We pay an annual dividend to the federal government of \$1,800,000. At our marginal tax rate the pre-tax revenue needed to pay this dividend is \$2,880,000. This will require us to lend approximately \$85,000,000 at our current net interest margin or leverage the CPP monies 2.36:1. To achieve our customary return on equity on the \$36,000,000 at our current net

interest margin we will need approximately \$159,000,000 of new loans. This represents leverage of the CPP monies at 4.4:1.

You should note that we report our lending practices and use of the CPP monies quarterly to the FDIC and periodically to the Special Inspector General of TARP.

Several commentators have suggested taxpayers are going to lose money on the Capital Purchase Program. On the contrary, there is every reason to believe that Treasury will make billions of dollars on the program. If a bank decides it wants to participate in the CPP, Treasury will only do so if the bank is healthy. The net cash return to the Treasury from the \$250 billion investment is \$12.5 billion per year for the first five years as banks pay the annual dividend on this money. Additionally, publicly traded banks issued warrants to the Treasury that is conservatively valued at \$10 billion to \$15 billion.

Thus, the total return to the government is likely to be \$72.5 billion to \$77.5 billion in the first five years. That doesn't include the benefit to businesses that will continue to have credit available and make money, pay taxes and keep people employed.

On February 10, 2009, Treasury Secretary Geithner announced a new program called the Financial Stability Plan (FSP). The FSP is designed to further assist banks, consumers and businesses in a manner to speed the economic recovery. This program has the following features:

1. A program to purchase illiquid assets from banks and provide liquidity on their balance sheets. Funding for the plan will come from a public-private partnership
2. A Consumers and Businesses Lending Initiative implemented through the Federal Reserve under the TALF program
3. The 22 banks with assets over \$100 Billion will be required to take a "stress test" to determine viability and additional capital needs
4. Banks participating in FSP will be required to restrict executive salaries and bonuses, shareholder dividends and other aspects of their operations

More details about FSP will be forthcoming in the next days and weeks.

Strong banks, like those in Iowa that came into this recession with more capital than during any other previous recession, are helping the state and nation weather this economic storm. If the economy continues to weaken and unemployment rises, the

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banking industry and its customers will need to be more not less prudent in taking on new debt. Prudent lending in combination with the work the government is doing will stabilize the economy, lay the base for future lending, help individual homeowners and begin the process of getting the private capital markets working again.

Thank you for allowing me this time. I would be pleased to answer any questions.